

ANNUAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 1974
CITY EMPLOYEES' RETIREMENT SYSTEM
City of Los Angeles
California

Room 505, City Hall South
111 East First Street
Los Angeles, California 90012

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of the
CITY OF LOS ANGELES

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Mayor

Burt Pines
City Attorney

Charles Navarro
City Controller

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CITY EMPLOYEES' RETIREMENT SYSTEM
of the
City of Los Angeles
California

FISCAL YEAR 1973 - 74

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LAWRENCE C. JONES, Vice-President
STEPHEN CHRYSTIE
DONALD C. TILLMAN
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**BOARD OF
ADMINISTRATION**

JERRY K. FIELDS
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CITY OF LOS ANGELES
CALIFORNIA



TOM BRADLEY
MAYOR

**CITY EMPLOYEES'
RETIREMENT SYSTEM**

ROOM 505, CITY HALL SOUTH
111 EAST 1ST STREET
LOS ANGELES, CALIF. 90012
485-2824

GORDON A. TURNBAUGH
MANAGER-SECRETARY

To the Mayor and City Council
of the City of Los Angeles

Gentlemen:

Presented herewith is the annual report of the Board of Administration of the City Employees' Retirement System for the Fiscal Year ended June 30, 1974, in accordance with the provisions of Section 64 of the City Charter.

FINANCIAL INFORMATION

During the 1973-74 fiscal year, Retirement System assets increased in book value from \$361.4 million to \$395.9 million, more than 9-1/2%; realized portfolio earnings increased from \$17.9 million to \$20.3 million, more than 13%. Although the investment portfolio increased from \$356.2 million to \$389.7 million, based on cost, the market value of the System's long-term securities decreased, in sympathy with the general decline in both stock and bond prices during the year. Taking market value as a percentage of amortized cost, bonds dropped from 87.9% of cost on June 30, 1973, to 81.0% on June 30, 1974; mortgages declined from 98.2% to 92.2%, stocks from 101.3% to 83.9%, and the total portfolio fell from 90.6% of cost to 81.7%.

Since bonds and mortgages are ordinarily held to maturity, when they are redeemed at par, this interim decline in prices is of little long-range consequence. The drop in stock prices, however, may or may not affect the Fund's long-range financial status depending upon the future course of prices and the magnitude of net losses, if any, that may be realized. Having noted this condition, it should be observed that the Fund's stock portfolio represents only 18.4% of the total portfolio, valued at cost, and thus may have only a limited impact on total performance. Furthermore, the Fund's stock portfolio declined somewhat less than that of comparable investment funds, an indication of the Board's and Investment Counsel's ability to select a superior portfolio. According to the A. G. Becker & Company Funds Evaluation Service (see last paragraph), this Fund's stocks declined 13.74% on a time-weighted basis, as compared with a 14.52% decline for the Standard & Poor's 500-stock average and an 18.69% decline for the comparable median fund of the A. G. Becker & Company survey.

As of June 30, 1974, the rate of return was 6.07% on bonds and mortgages and 3.07% on stocks. This compares with 5.82% and 2.86% respectively, as of the previous June 30. The yield on the System's short-term securities (less than one year maturity) was 9.38% for the 1973-74 fiscal year, as compared with 4.63% for the previous year. The sharp increase in short-term

yield is due to (1) generally higher interest rates, and (2) an October 1973 policy change by which the Board authorized investment of short-term funds in high-grade commercial paper which affords yields substantially greater than available from U. S. Treasury bills, previously the sole short-term investment medium. It is gratifying to report that the System is fiscally sound and that all unfunded liabilities incurred prior to May 1974, are being systematically reduced in accordance with actuarial recommendations. According to schedule, they will be fully amortized by the year 2003. The System's next actuarial study, due January 1975, will include a schedule for amortization of liabilities incurred under Ordinance No. 145,804 which became operative, in part, on May 14, 1974.

BENEFIT IMPROVEMENTS

During the Fiscal Year 1973-74, the City Council, under authority of Charter Section 512.2, adopted two ordinances (Nos. 145,067 and 145,804) which provide increased retirement benefits. The first of these, establishing a health insurance subsidy for most retired City employees, became operative January 1, 1974. It is totally financed by the Retirement System but is administered by the Personnel Department at the request of the Board of Administration.

The second ordinance, operative at various dates from May 14 through July 1, provides a number of benefit improvements for previously retired employees and their eligible survivors:

- 1) A 15% increase in the service retirement allowance of those who retired prior to March 29, 1973.
- 2) An increase to a 33-1/3% minimum allowance for those on disability retirement who had originally been granted a 25% minimum allowance.
- 3) A 5% increase in the disability retirement allowance of those who retired prior to March 29, 1973.
- 4) A 50% continuance to the eligible spouses of those who retired prior to July 1, 1965.

As indicated on page 1, the average level of retirement benefits increased substantially over the level of the preceding June 30. This increase resulted primarily from the improvements provided under Ordinance No. 145,804, described above, and from other changes effected in March 1973, under Ordinance No. 144,470 which (1) increased retirement allowances from 1/60 to 1/50 of final compensation for each year of service credit, (2) changed the basis of final compensation to the last or highest twelve consecutive months (rather than thirty-six consecutive months), and (3) increased the maximum annual cost-of-living adjustment from 2% to 3%. An additional factor, of course, was the higher level of salaries which increases the "final compensation" figure upon which most benefits are based.

INVESTMENT COUNSEL

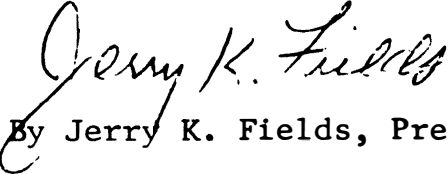
Lionel D. Edie & Company has been Investment Counsel to the Board of Administration since 1940. In order to verify that the Board is receiving the highest caliber of investment advice, the staff was directed by the Board to invite proposals for advisory services from substantial firms in the Los Angeles area. After a thorough and extensive screening by Board members and staff, the 40 firms responding were narrowed down to three whose representatives were invited to make formal presentations before the Board of Administration. After careful consideration of the philosophies and capabilities of the prospective counselors, the Board renewed its contract with Lionel D. Edie & Company for an additional three-year period beginning July 1, 1974.

INVESTMENT PERFORMANCE

On June 15, 1973, the Board of Administration contracted with the A. G. Becker & Company Funds Evaluation Service to provide quarterly reports monitoring the Retirement System's investment performance. This service measures and compares the performance of a large number of investment funds and also provides a separate comparison with a selected group of public funds. For the fiscal year ended June 30, 1974, the overall investment performance of the City Employees' Retirement System (based on market prices) ranked in the top 11% of approximately 400 funds with assets of over \$50 million each. The A. G. Becker & Company evaluation service was provided at what amounts to no cost since all fees were paid in "soft dollars", i.e., dollars earned by providing brokerage service, accepted in lieu of cash payment.

Respectfully submitted,

BOARD OF ADMINISTRATION



By Jerry K. Fields, President

CITY EMPLOYEES' RETIREMENT SYSTEM

GENERAL STATISTICS

Active Membership

	<u>June 30, 1974</u>	<u>June 30, 1973</u>	<u>Increase or (Decrease)</u>
Males	14,866	14,943	(77)
Females	<u>4,956</u>	<u>4,884</u>	<u>72</u>
Total	19,822	19,827	(5)

Retirement Roll

	<u>June 30, 1974</u>		<u>June 30, 1973</u>	
	<u>Number</u>	<u>Average Monthly Allowance</u>	<u>Number</u>	<u>Average Monthly Allowance</u>
Service Retirements	3,808	\$ 375	3,502	\$ 291
Disability Retirements	360	233	323	192
Survivorships	217	300	198	233
Limited Pensions	25	547	25	514
Family Death Benefit Plan Beneficiaries	<u>111</u>	212	<u>90</u>	211
Total	4,521		4,138	

Applications Processed To Completion

	<u>1973 - 74</u>	<u>1972 - 73</u>	<u>Increase or (Decrease)</u>
Service Retirements	471	323	148
Disability Retirements	48	61	(13)
Family Death Benefit Plan	11	21	(10)
Death Benefits			
Active Employees			
Limited Pensions with Refund of Contributions	34	34	---
Survivorships	17	19	(2)
Refund of Contributions	15	24	(9)
Retired Employees			
Death Payments	171	187	(16)
Refund of Contributions to Former Members	1,800	1,932	(132)

FINANCIAL STATEMENTS
CITY EMPLOYEES' RETIREMENT SYSTEM
COMPARATIVE BALANCE SHEET
JUNE 30, 1974 AND JUNE 30, 1973

	<u>1974</u>	<u>1973</u>	<u>Increase (Decrease)</u>
<u>ASSETS</u>			
CASH:			
In City Treasury	\$ 406,008.88	\$ 243,963.13	\$ 162,045.75
Health Ins. Trust Fund	145,920.73	-----	145,920.73
On Hand	<u>100.00</u>	<u>50.00</u>	<u>50.00</u>
Total Cash	<u>\$ 552,029.61</u>	<u>\$ 244,013.13</u>	<u>\$ 308,016.48</u>
RECEIVABLES:			
Accrued Interest	\$ 4,511,649.91	\$ 4,040,764.14	\$ 470,885.77
Dividends Receivable	228,132.50	193,210.00	34,922.50
Due from Other Funds	<u>853,289.38</u>	<u>767,607.81</u>	<u>85,681.57</u>
Total Receivables	<u>\$ 5,593,071.79</u>	<u>\$ 5,001,581.95</u>	<u>\$ 591,489.84</u>
INVESTMENTS:			
Temporary Investments (Par)	\$ 16,800,000.00	\$ 3,600,000.00	\$13,200,000.00
Bonds (Par)	300,778,894.51	284,461,127.69	16,317,766.82
Mortgages (Par)	4,368,752.16	1,000,000.00	3,368,752.16
Premium on Investments	702,822.56	735,717.11	(32,894.55)
Discount on Investments	(4,632,181.89)	(4,296,125.13)	(336,056.76)
Stocks @ Cost	<u>71,690,081.91</u>	<u>70,691,808.65</u>	<u>998,273.26</u>
Total Investments	<u>\$389,708,369.25</u>	<u>\$356,192,528.32</u>	<u>\$33,515,840.93</u>
Total Assets	<u>\$395,853,470.65</u>	<u>\$361,438,123.40</u>	<u>\$34,415,347.25</u>

LIABILITIES, RESERVE AND FUND BALANCE

CURRENT LIABILITIES:

Accrued Benefits Payable	\$ 154,223.90	\$ 101,286.21	\$ 52,937.69
Accounts Payable	27,081.74	29,089.30	(2,007.56)
Due on Securities	140,775.00	31,058.85	109,716.15
Due Insurance Carriers	<u>145,920.73</u>	<u>-----</u>	<u>145,920.73</u>
Total Current Liabilities	<u>\$ 468,001.37</u>	<u>\$ 161,434.36</u>	<u>\$ 306,567.01</u>

COMPARATIVE BALANCE SHEET (Continued)

RESERVES:

Actuarial:

Accumulated Contributions

of Members	\$146,285,193.20	\$137,400,417.52	\$ 8,884,775.68
Annuities	43,809,497.66	36,789,161.57	7,020,336.09
Prior Service	2,769,742.89	3,554,965.63	(785,222.74)
Subsequent Service	176,986,217.32	162,099,390.35	14,886,826.97
Cost of Living (Sec. 510.1)	19,725,620.95	16,366,250.88	3,359,370.07
Family Death Benefit Ins.	<u>1,885,631.30</u>	<u>1,554,288.45</u>	<u>331,342.85</u>

Total Actuarial
Reserves

\$391,461,903.32	\$357,764,474.40	\$33,697,428.92
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Others:

Undistributed
Earnings

98,190.23	22,513.98	75,676.25
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Investment Profits
and (Losses)

Bonds	136,826.84	427,558.57	(290,731.73)
Stocks	2,915,688.54	2,214,456.65	701,231.89

Reserve for
Encumbrances

<u>91,008.70</u>	<u>-----</u>	<u>91,008.70</u>
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Total Reserves

<u>\$394,703,617.63</u>	<u>\$360,429,003.60</u>	<u>\$34,274,614.03</u>
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FUND BALANCE

<u>\$ 681,851.65</u>	<u>\$ 847,685.44</u>	<u>(\$ 165,833.79)</u>
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Total Liabilities,
Reserves and Fund
Balance

<u><u>\$395,853,470.65</u></u>	<u><u>\$361,438,123.40</u></u>	<u><u>\$34,415,347.25</u></u>
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NOTE: The Retirement System's investments in common stocks of \$71,690,082 had a quoted market value of approximately \$60,168,613 on June 30, 1974.

CITY EMPLOYEES' RETIREMENT SYSTEM
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1974

RECEIPTS

Members' Contributions	\$ 13,865,020.19	
City Contributions	20,585,830.89	
Family Death Benefit Ins. Premiums	250,098.09	
Interest on Investments	17,310,339.24	
Dividends Received	2,122,162.79	
Miscellaneous	49,019.11	
Investments:		
Bonds	7,822,758.87	
Short Term Securities	140,600,000.00	
Stocks	6,767,260.84	
Discount/Premium (Net)	(96,353.36)	
Reserve for Gain or Loss on Investments:		
Bonds	(312,339.98)	
Stocks	701,231.89	
Received on Exchange of Securities	<u>21,096.68</u>	
TOTAL RECEIPTS		\$209,686,125.25
CASH BALANCE, JUNE 30, 1973		<u>243,963.13</u>
TOTAL AVAILABLE FOR EXPENDITURES		<u><u>\$209,930,088.38</u></u>

DISBURSEMENTS

Investments:		
Bonds and Mortgages	\$ 27,400,000.00	
Short Term Securities	153,800,000.00	
Discount/Premium (Net)	(930,366.56)	
Interest Purchased	166,370.89	
Stock Purchased	7,655,817.95	
Paid on Exchange of Securities	<u>43,186.96</u>	
		\$188,135,009.24
Allowances:		
Retirement	\$ 16,684,547.65	
Family Death Benefit Plan Payments	263,317.04	
Miscellaneous Adjustments for Prior Year	<u>65,632.40</u>	17,013,497.09
Refunds:		
Terminated Members	\$ 3,657,272.08	
Retired	<u>272,236.48</u>	3,929,508.56
Administrative Expense		<u>446,064.61</u>
TOTAL DISBURSEMENTS		\$209,524,079.50
CASH BALANCE JUNE 30, 1974		<u>406,008.88</u>
TOTAL DISBURSEMENTS AND CASH BALANCE		<u><u>\$209,930,088.38</u></u>

CITY EMPLOYEES' RETIREMENT SYSTEM
COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES
JUNE 30, 1974 AND JUNE 30, 1973

	<u>1974</u>	<u>1973</u>
REVENUES:		
Member Contributions	\$13,947,819.56	\$13,752,595.43
City Contributions	20,585,830.89	19,740,168.71
Family Death Benefit Premiums	253,010.25	210,655.66
Interest	18,145,495.33	16,172,669.33
Dividends	2,157,062.50	1,728,537.29
Capital Gains (Loss)	410,500.16	(165,005.19)
Miscellaneous Income	<u>127.69</u>	<u>1,801.20</u>
 Total Revenues	 <u>\$55,499,846.38</u>	 <u>\$51,441,422.43</u>
 EXPENDITURES:		
Prior Service Allowance	\$ 1,532,161.21	\$ 1,587,091.53
Subsequent Service Allowance	9,677,455.23	7,560,341.87
Annuity Allowance	3,417,639.30	2,927,706.69
Cost of Living Allowance	2,154,630.12	1,378,569.15
Family Death Benefit Allowance	259,794.40	227,467.26
Refund of Members Contributions	3,622,965.41	3,404,385.52
Refund of Unused Accumulated Contributions	<u>264,193.07</u>	<u>248,035.08</u>
 Total Benefits Paid	 <u>\$20,928,838.74</u>	 <u>\$17,333,597.10</u>
Administrative Expenses	<u>442,173.67</u>	<u>418,831.74</u>
 Total Expenditures	 <u>\$21,371,012.41</u>	 <u>\$17,752,428.84</u>
 Excess of Revenues over Expenditures	 <u>\$34,128,833.97</u>	 <u>\$33,688,993.59</u>

INVESTMENT PORTFOLIO

	<u>June 30, 1974</u>	<u>June 30, 1973</u>	<u>Increase (Decrease)</u>
Bonds, including			
Temporary Investments			
(at Amortized Cost)	\$314,143,527.11	\$284,633,219.67	\$29,510,307.44
Stocks			
(at Cost)	71,690,081.91	70,691,808.65	998,273.26
Mortgages			
(at Amortized Cost)	<u>3,874,760.23</u>	<u>867,500.00</u>	<u>3,007,260.23</u>
	<u>\$389,708,369.25</u>	<u>\$356,192,528.32</u>	<u>\$33,515,840.93</u>

DISTRIBUTION OF SECURITIES BY TYPE & CLASS

	<u>June 30, 1974</u>	<u>June 30, 1973</u>
<u>FIXED INCOME SECURITIES</u>		
Bonds		
U. S. Government	.03%	.28%
Industrials	22.14	23.91
Public Utilities	36.67	39.08
Railroads	11.84	12.49
Miscellaneous	<u>22.74</u>	<u>22.56</u>
Total Bonds	93.42%	98.32%
Mortgages	1.36	.43
Temporary Investments	<u>5.22</u>	<u>1.25</u>
Total Fixed Income Securities	<u>100.00%</u>	<u>100.00%</u>

DISTRIBUTION OF SECURITIES BY TYPE & CLASS (Continued)

June 30, 1974

June 30, 1973

STOCKS

Common Stocks		
Drugs & Medical	11.26%	9.22%
Electrical Equipment	9.05	10.33
Office Equipment	14.14	12.90
Photographic	1.28	1.01
Technological	--	.84
Automotive	2.18	2.21
Chemical	4.65	4.78
Machinery	4.49	6.12
Metals & Mining	3.35	3.04
Banks & Finance	2.96	2.85
Cosmetics	4.92	4.08
Education & Entertainment	1.15	1.17
Food, Beverage & Soap	7.41	7.90
Insurance	4.31	4.17
Oil	9.43	10.69
Public Utilities	8.90	8.12
Retail Trade	4.43	4.34
Rubber	2.80	2.83
Consumer & Services	<u>2.77</u>	<u>2.81</u>
Total Common Stocks	99.48%	99.41%

Preferred Stock

Convertible Preferred	<u>.52</u>	<u>.59</u>
Total Equities	<u>100.00%</u>	<u>100.00%</u>

TOTAL PORTFOLIO

Fixed Income Securities	81.79%	80.35%
Stocks	<u>18.21</u>	<u>19.65</u>
	<u>100.00%</u>	<u>100.00%</u>

RATE OF RETURN ON INVESTMENTS

June 30, 1974

June 30, 1973

Bonds and Mortgages	6.07%	5.82%
Stocks	3.07	2.86
Bonds, Mortgages and Stocks	5.49	5.23

YIELD ON SHORT-TERM SECURITIES

1973 - 74

1972 - 73

U. S. Treasury Bills and/or Commercial Paper	9.38%	4.63%
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